

Heartwood – Market update 26/03/2020

To help you in your conversations with clients during these difficult markets, for the foreseeable future, we will be sending you a daily market update email with the latest thoughts from the Investment team. This is also available in Investment Documentation on Lotus Notes.

What's happening?

- Tuesday's optimism carried on through into Wednesday, with most major European stock markets up nicely, as was the US until some softness into the close.
- This was the first back-to-back gains in equities for a month, however Asian equities have displayed more nervousness in trading overnight and European/US futures are down for today.
- Real GDP in Singapore fell at an annualised rate of 10.6% in Q1, versus expectations of a 8.2% contraction, so disappointing in several respects.
- The US Senate passed the fiscal bill, so now it's back to the House then ultimately the Resolute desk. The German Parliament approved a EUR800bn fiscal package too.
- The Eurozone's sovereign bazooka, the OMT (Outright Monetary Transactions), has pretty much been approved for use. If deployed, it would mean the ECB more directly helps finance a sovereign's debt burden. It would require the country to enter into the ESM (European Stability Mechanism). It was developed in 2012 but never used – at least up until now (Italy?).
- Also the ECB has relaxed the 'issuer limit' rules on its existing QE program – a huge move which allows more flexibility.
- The Bank of England meets today, new Governor Andrew Bailey's first formal meeting, but expect little after last week's pre-emptive decisions.
- Also watch out for weekly jobless claims in the US. From a low reading of 281k last week, the consensus expects a rise to 1.64m.
- Easter is two and a half weeks away, which is when the UK government thinks COVID cases may peak, if social distancing works.
- New York has seen a sharp rise in new diagnoses. Travellers out of NYC are asked to self-isolate. The rate of growth in the UK and Italy is abating ever so slightly.

Property funds update

- As we highlighted in last week's note on property funds (attached for reference), we have continued to see dealing suspensions enacted for almost all open-ended property funds in the UK.
- The latest to do so is the Threadneedle Property Unit Trust, which is held in a number of Heartwood portfolios.
- The current holdings of TPUT are as follows:
 - Defensive MAF: 1.4%
 - Cautious MAF: 2.4%
 - Balanced MAF: 2.4%
 - Growth MAF: 0%
 - Income MAF: 3.8%
 - Income Plus MAF: 3.4%
- We had one pending trade (a partial redemption on behalf of the Defensive MAF) that may now be delayed in being processed as a result of this suspension. However, we had no other upcoming plans to trade on this position; as such, the suspension of dealing terms does not have an immediate impact on HW portfolios.
- As we noted last week, the dealing suspensions in open-ended funds are the result of real estate valuation agents triggering "material uncertainty" clauses in their valuation reports, which necessitates the suspension of dealing in the subject funds' units, as per FCA guidelines. We do not expect this to be a permanent situation. As the impact of COVID-19 and the measures taken to restrict its spread become easier to quantify and we see more transactional activity in the real estate market, we expect valuers to become more comfortable assigning asset values and to remove the "material uncertainty" clauses, which will allow funds to lift the dealing suspensions.
- We are speaking with Threadneedle on a weekly basis and monitoring the situation very closely.